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SUBJECT: SRI LANKA MAY HAVE OIL AND GAS FIELDS, BUT LACKS EXPERTISE FOR EXPLOITING THEM

¶11. (U) Summary: Sri Lanka is preparing to call for expressions of interest from international companies for oil and gas exploration as studies conducted by an international company have revealed possible petroleum resources in the seabed off the northern and western coasts. While Sri Lanka appears to possess significant untapped energy resources, it lacks the expertise to develop a plan for establishing the appropriate policy and market frameworks and transparent tender processes necessary to attract international exploration companies. Post has asked USTDA to look at possibly funding a consultancy to assist the Government in pursuing this potential opportunity. End Summary.

There's Oil in That There Basin

¶12. (U) In response to increasingly frequent media accounts of Government of Sri Lanka (GSL) intentions to open possible offshore oil and gas sites for exploration, EconOff met with Mr. A.P.A. Gunasekara, Secretary to the Ministry of Petroleum Development, on February 8 to discuss GSL plans for exploitation of these resources. According to Gunasekara, who also heads the Petroleum Resources Development Council (PRDC), seismic surveys and airborne gravity surveys have confirmed the existence of petroleum resources in Sri Lanka's territorial waters. The seismic surveys were conducted by the Australian subsidiary of Norwegian firm T.G.S. Nopec in 2003 and 2005. The surveys revealed the possible existence of petroleum resources in two offshore locations near Sri Lanka, in the Cauvery basin in the Palk Straits (between Sri Lanka and India) and in Mannar basin along the western coastal belt of Sri Lanka.

What's Available?

¶13. (U) The government is currently in the process of preparing for the bidding process, which officials state will begin in the summer. Sri Lanka will likely sell exploration rights to approximately nine ?blocks.? However, there is no indication how the GSL will structure this tender, as it appears that they have appointed no one who understands oil exploration, nor have they to date selected foreign advisors with sufficient experience.

The Politics of Oil

¶4. (SBU) Petroleum resources were a popular campaign theme in last November's Presidential Election. President Rajapakse promised to transform the country, and the lives of its people, through oil. According to Gunasekara, several countries have approached the government seeking exploration rights. Recently, Foreign Minister Mangala Samaraweera told Ambassador that China had asked for exploration rights and that India has claimed that former President Chandrika Kumaratunga had promised that India would be given the franchise for exploration. Samaraweera suggested that, since as many as 15 blocks are potentially available, India and China might each be given one via bilateral agreement, with their firms obviously allowed to bid through an open tendering process for the other 13 (Note: there is little clarity on the number of blocks actually available; contacts cite figures that range between 9 and 15. End Note). The President has promised that exploration licenses will be issued through a competitive bidding process.

Interest Already Shown

¶5. (SBU) According to recent press reports, Indian industrial giant Reliance Corporation is the latest firm to approach the GSL seeking exploration rights. Representatives from the London office of the US law firm Hogan and Hartson (HH) were recently in Sri Lanka to persuade the government to hire their firm to develop the tender process, review and propose appropriate legislation, assist the GSL in developing ?road shows,? develop the tender documents and assist in the final selection process. According to HH's representative, it would cost the GSL approximately USD 1 million to hire a firm like HH and get

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the full range of support they offer. The representative said that his ?rough guess? was that the exploration rights should be worth between USD 40 to 50 million (Note: Econchief has facilitated an introduction between HH and USTDA and we are hopeful that some form of assistance might become available to help finance a US-led effort to assist the GSL in this endeavor. End Note).

New Government Bodies...

¶6. (U) The importance attached to the new seismic and airborne gravity surveys is evidenced by the creation several months ago under the former Government of the new Ministry of Petroleum and Petroleum Development (MOPD) as well as two related institutes. The Petroleum Resources Development Secretariat (PRDS) has the mandate to manage exploration activity. The Secretariat is not fully functional yet as it awaits the appointment of a Director General. The Petroleum Resources Development Council (PRDC), a high level committee of policy advisors, is tasked to form policy and advise the PRDS. Several key ministry secretaries and the Board of Investment Chairman are members of the PRDC. A Petroleum Resources Development Act was also passed under the former Government.

...But Little Expertise to Run Them

¶7. (SBU) One of the key challenges facing the GSL is a lack of anyone with experience in the international oil and gas arena. Former-BOI Chair and current Chief Operating Officer of the Reconstruction and Development Agency, Saliya Wickramasuriya, spent 20 years with the oil-rig services firm Schlumberger, and he appears interested in pursuing this opportunity. He is rumored to have been offered a high-level position in the new Petroleum Ministry under former President Kumaratunga, but was dropped following the November election. Current Petroleum Resources Minister H.M. Fowzie is an energetic and smart politician, but he seems unfamiliar with the issues involved in this undertaking. Fowzie recently told the Ambassador he was looking to Cuba to provide ?expertise? in

the oil arena (Fowzie has also suggested linking with Venezuela and Iran for support in this endeavor). Foreign Ministry contacts have assured us the Cuba and Venezuela initiatives are unlikely to go forward.

Comment

¶ 8. (SBU) Sri Lanka could benefit substantially from the exploration and tapping of these petroleum and natural gas resources. But due to virtually nonexistent, relevant professional expertise, the GSL risks implementing a less than optimal plan. Post is developing a strategy to support interest by US companies in this opportunity and seeks USTDA assistance to focus the GSL's thinking and steer them toward an open, transparent process that promotes an efficient and profitable opportunity for the exploration company as well as the people of Sri Lanka.

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